

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Merritt Area Fire Department	County Missaukee
Audit Date 3/31/06	Opinion Date 7/6/06	Date Accountant Report Submitted to State: 7/27/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☒ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:		Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.		✓		
Reports on individual federal financial assistance programs (program audits).				✓
Single Audit Reports (ASLGR).				✓

Certified Public Accountant (Firm Name) Baird, Cotter and Bishop, P.C.			
Street Address 134 West Harris Street	City Cadillac	State MI	ZIP 49601
Accountant Signature 		Date 7/27/06	

MERRITT AREA FIRE DEPARTMENT
MERRITT, MICHIGAN

MARCH 31, 2006

MERRITT AREA FIRE DEPARTMENT
MERRITT, MICHIGAN

MARCH 31, 2006

TABLE OF CONTENTS

	<u>PAGES</u>
Independent Auditors' Report	i-ii
Management's Discussion and Analysis	iii-viii
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Assets	1
Statement of Activities	2
Fund Financial Statements	
Governmental Fund	
Balance Sheet	3
Reconciliation of the Balance Sheet to the Statement of Net Assets	4
Statement of Revenues, Expenditures and Changes in Fund Balances	5
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	6
Notes to Financial Statements	7-16
Required Supplementary Information	
Budgetary Comparison Schedule – Major Governmental Funds	17
Other Information	
Letter of Comments and Recommendations	18-19
Letter of Reportable Conditions	20

134 WEST HARRIS STREET
CADILLAC, MICHIGAN 49601
231-775-9789
FAX: 231-775-9749

M. WAYNE BEATTIE, C.P.A.
1902 - 1990
JACK H. BAIRD, C.P.A.
JERRY L. COTTER, C.P.A.
DALE D. COTTER, C.P.A.

JOHN H. BISHOP, C.P.A.
ROBERT V. BEATTIE, C.P.A.
DOUGLAS P. McMULLEN, C.P.A.
JOHN F. TAYLOR, C.P.A.
STEVEN C. ARENDS, C.P.A.
SCOTT A. HUNTER, C.P.A.
JONATHAN E. DAMHOF, C.P.A.
MICHAEL D. COOL, C.P.A.

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

July 6, 2006

INDEPENDENT AUDITORS' REPORT

To the Fire Board
Merritt Area Fire Department
Missaukee County
Merritt, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the Merritt Area Fire Department, Missaukee County, Merritt, Michigan as of and for the year ended March 31, 2006, which collectively comprise the Fire Department's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Fire Department's Management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Merritt Area Fire Department, Missaukee County, Merritt, Michigan, as of March 31, 2006, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note I, the Fire Department has implemented a new financial reporting model as required by the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* as of April 1, 2004.

The management's discussion and analysis on pages iii through viii and budgetary comparison information on page 17 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Merritt Area Fire Department, Missaukee County, Merritt, Michigan's basic financial statements. The individual fund financial statements, and other supplementary information are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

MERRITT AREA FIRE DEPARTMENT
MERRITT, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2006

Merritt Area Fire Department is a joint venture volunteer fire department supported by the Townships of Butterfield and Enterprise that has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Merritt Area Fire Department board's discussion and analysis of the financial results for the fiscal year ended March 31, 2006.

Financial Highlights

- ◆ The assets of the Fire Department exceeded its liabilities at the close of the fiscal year by \$340,845. Of this amount, \$79,772 may be used to meet the Fire Department's ongoing obligations to citizens and creditors.
- ◆ At the end of the current fiscal year, unreserved fund balance for the General Fund was \$74,143 or 140.654% of total general fund expenditures. Also, the Equipment Fund had an end of year fund balance of \$5,629.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Fire Department's basic financial statements. The Fire Department's basic financial statements are comprised of three components. 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements The government-wide financial statements, required by GASB 34, are new and being shown for the first time in 2006 for Merritt Area Fire Department. The *government-wide financial statements* are designed to provide readers with a broad overview of the Fire Department's finances, in a manner similar to a private-sector business. These statements are calculated using full accrual accounting and more closely represent those presented by business and industry. The entire Fire Department's assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation.

The *Statement of Net Assets* presents information on all of the Fire Department's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Fire Department is improving or deteriorating.

The *Statement of Activities* presents information showing how the Fire Department's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

MERRITT AREA FIRE DEPARTMENT
MERRITT, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2006

Both of the government-wide financial statements distinguish functions of the Fire Department that are principally supported by intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Fire Department include public safety. The fire department supports no business-type activities.

Fund Financial Statements

The fund level statements are reported on a modified accrual basis in that only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources. All of the funds of the Fire Department are governmental funds.

Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statement, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provides a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements, this report further presents Required Supplementary Information (RSI) that explains and supports the information presented in the financial statements.

Government-Wide Financial Analysis

The Statement of Net Assets is the first statement in the Government-Wide Financial Statements section of this document. This statement is useful for providing an indicator of the Fire Department's financial position over time. The Net Assets of the Fire Department are \$340,845 at March 31, 2006, meaning the Fire Department's assets were greater than its liabilities by this amount.

MERRITT AREA FIRE DEPARTMENT
MERRITT, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2006

Merritt Area Fire Department
Net Assets as of March 31, 2006

	Governmental Activities
Assets	
Current Assets	\$ 80,446
Non Current Assets	
Capital Assets	683,480
Less: Accumulated Depreciation	<u>(247,407)</u>
Total Non Current Assets	<u>436,073</u>
Total Assets	<u><u>\$ 516,519</u></u>
Liabilities	
Current Liabilities	\$ 13,834
Non Current Liabilities	<u>161,840</u>
Total Liabilities	<u>175,674</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	261,073
Unrestricted	<u>79,772</u>
Total Net Assets	<u>340,845</u>
Total Liabilities and Net Assets	<u><u>\$ 516,519</u></u>

The most significant portions of the Fire Department's Net Assets are cash and investment in capital assets (e.g. land, buildings and equipment), less any related debt that is outstanding that the Fire Department used to acquire or construct the asset.

At the end of the current fiscal year, the Fire Department is able to report positive balance in net assets for the government as a whole.

The following table illustrates and summarizes the results of the changes in the net assets for the Fire Department. The condensed information was derived from the government-wide Statement of Activities.

MERRITT AREA FIRE DEPARTMENT
MERRITT, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2006

Merritt Area Fire Department
Change in Net Assets
for the Fiscal Year Ended March 31, 2006

	Governmental Activities
<u>Revenues</u>	
Charges for Services	\$ 31,282
Capital Grants and Contributions	2,040
General Revenues	
Contributions from Local Units	45,048
Interest Earnings	1,808
Other	<u>162</u>
Total Revenues	<u>80,340</u>
<u>Expenses</u>	
Public Safety	<u>81,678</u>
Change in Net Assets	(1,338)
NET ASSETS - Beginning of Year	<u>342,183</u>
NET ASSETS - End of Year	<u><u>\$ 340,845</u></u>

Governmental Activities

During the fiscal year ended March 31, 2006, the Fire Department's net assets decreased by \$1,338 or 0.4% in the governmental funds. The majority of this decrease represents the degree to which increases in ongoing revenues have not outstripped similar increases in ongoing expenses. This is partially true due to the fact that GASB 34 now requires the Fire Department to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.

The most significant part of the revenue for all governmental activities of Merritt Area Fire Department comes from the Townships of Butterfield and Enterprise. Each unit contributes an amount based on taxable value in each unit to support the Fire Department. Each township levies mills for fire protection. This revenue is shown as contributions from local units.

The Fire Department's governmental activities expenses are dominated by public safety expenses that total 100% of total expenses. The Fire Department spent \$81,678 in fiscal year 2006 on public safety expenses.

MERRITT AREA FIRE DEPARTMENT
MERRITT, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2006

Expenses for insurance represent a large portion of the public safety expenses at \$12,232. Depreciation expense added another \$28,962.

Financial Analysis of the Government's Funds

Governmental Activities The focus of Merritt Area Fire Department's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Fire Department's financing requirement. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

General Fund – At the end of the current fiscal year, Merritt Area Fire Department's general fund reported an ending fund balance of \$74,143. All this amount constitutes unreserved fund balance. The fund balance of the Fire Department's general fund increased by \$7,012 during the current fiscal year.

Equipment Fund – At the end of the current fiscal year, Merritt Area Fire Department's equipment fund reported an ending balance of \$5,629. All of this amount represents unreserved but designated fund balance. The fund balance of the Fire Department's equipment fund decreased by \$31,196 during the current fiscal year.

General Fund Budgetary Highlights

During the year, individual expenditure lines were amended to agree with actual expenditures.

Capital Assets and Debt Administration

Capital Assets. The Fire Department's investment in capital assets for governmental activities as of March 31, 2006 amounted to \$436,073 net of accumulated depreciation. The total net increase in the Fire Department's investment in capital assets for the current fiscal year was 83%.

Capital assets summarized below include any items purchased with a cost greater than \$1,000 individually and have a useful life greater than one year. A summary of capital asset categories is illustrated below:

MERRITT AREA FIRE DEPARTMENT
MERRITT, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2006

Merritt Area Fire Department
Capital Assets as of March 31, 2006

	Governmental Activities
Land	\$ 41,000
Land Improvements	9,700
Buildings	82,515
Building Improvements	16,587
Equipment	533,678
	<hr/> 683,480
Less Accumulated Depreciation	<hr/> 247,407
	<hr/>
Net Capital Assets	<u><u>\$ 436,073</u></u>

Major capital asset events during the current fiscal year included the following:

- Purchased a truck at a cost of \$226,808.

Long-Term Debt. As of March 31, 2006, the Fire Department had a loan payable of \$175,000 to Chemical Bank West for the purchase of a fire truck.

Economic Condition and Outlook

The Fire Department is expected to be supported by the Townships in the future.

The mills to be levied for the 2006 tax roll for fire protection are expected to be similar to 2005.

These factors were considered in preparing the Fire Department's budgets for the 2006-07 fiscal year.

Request for Information

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the Fire Department's finances and to demonstrate the Fire Department's accountability for the money it receives. If you have any questions about this report or need any additional information, contact Merritt Area Fire Department at 2393 S. Merritt Road, Merritt, Michigan 49667.

MERRITT AREA FIRE DEPARTMENT

MERRITT, MICHIGAN

STATEMENT OF NET ASSETS

MARCH 31, 2006

	<u>GOVERNMENTAL ACTIVITIES</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash	\$ 61,476
Due From Other Governments	16,165
Accounts Receivable	2,805
Total Current Assets	80,446
<u>CAPITAL ASSETS</u>	
Land	41,000
Land Improvements	9,700
Buildings	82,515
Building Improvements	16,587
Equipment	533,678
	683,480
Less Accumulated Depreciation	(247,407)
Total Capital Assets	436,073
TOTAL ASSETS	\$ 516,519
<u>LIABILITIES AND NET ASSETS</u>	
<u>LIABILITIES</u>	
<u>CURRENT LIABILITIES</u>	
Payroll Taxes and Withholdings	\$ 674
Current Portion of Non Current Liabilities	13,160
Total Current Liabilities	13,834
<u>NON CURRENT LIABILITIES</u>	
Loan Payable	175,000
Less Current Portion of Non Current Liabilities	(13,160)
Total Non Current Liabilities	161,840
Total Liabilities	175,674
<u>NET ASSETS</u>	
Invested in Capital Assets, Net of Related Debt	261,073
Unrestricted	79,772
Total Net Assets	340,845
TOTAL LIABILITIES AND NET ASSETS	\$ 516,519

The accompanying notes are an integral part of the financial statements.

MERRITT AREA FIRE DEPARTMENT
MERRITT, MICHIGAN

STATEMENT OF ACTIVITIES
YEAR ENDED MARCH 31, 2006

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSES) REVENUES AND CHANGE IN NET ASSETS
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	
TOTALS					
<u>PRIMARY GOVERNMENT</u>					
<u>GOVERNMENTAL ACTIVITIES</u>					
Public Safety	\$ 81,678	\$ 31,282	\$ 0	\$ 2,040	\$ (48,356)
<u>GENERAL REVENUES</u>					
Contributions from Local Units					45,048
Interest Earnings					1,808
Other					162
Total General Revenues					47,018
Change in Net Assets					(1,338)
<u>NET ASSETS</u> - Beginning of Year					342,183
<u>NET ASSETS</u> - End of Year					\$ 340,845

The accompanying notes are an integral part of the financial statements.

MERRITT AREA FIRE DEPARTMENT
MERRITT, MICHIGAN

GOVERNMENTAL FUNDS

BALANCE SHEET
MARCH 31, 2006

	GENERAL FUND	EQUIPMENT FUND	TOTAL GOVERNMENTAL FUNDS
<u>ASSETS</u>			
Cash	\$ 55,847	\$ 5,629	\$ 61,476
Due From Other Governments	16,165	0	16,165
Accounts Receivable	2,805	0	2,805
<hr/>			
TOTAL ASSETS	\$ 74,817	\$ 5,629	\$ 80,446
<hr/>			
<u>LIABILITIES AND FUND BALANCES</u>			
<u>LIABILITIES</u>			
Payroll Taxes and Withholdings	\$ 674	\$ 0	\$ 674
<hr/>			
<u>FUND BALANCES</u>			
Designated for Fire Equipment	0	5,629	5,629
Undesignated	74,143	0	74,143
<hr/>			
Total Fund Balances	74,143	5,629	79,772
<hr/>			
TOTAL LIABILITIES AND FUND BALANCES	\$ 74,817	\$ 5,629	\$ 80,446
<hr/>			

The accompanying notes are an integral part of the financial statements.

MERRITT AREA FIRE DEPARTMENT
LAKE CITY, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
MARCH 31, 2006

Total Fund Balance for Governmental Funds	\$	79,772
---	----	--------

Amounts reported for governmental activities in the statement of net assets
are different because:

Capital assets used in governmental activities are not
financial resources and therefore are not reported in the funds.

Land	41,000	
Land Improvements	9,700	
Buildings	82,515	
Building Improvements	16,587	
Equipment	533,678	
Accumulated Depreciation	<u>(247,407)</u>	436,073

Long term liabilities are not due and payable in the current period and
are not reported in the fund.

Bank Loan - Fire Truck		<u>(175,000)</u>
------------------------	--	------------------

NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u><u>340,845</u></u>
---------------------------------------	----	-----------------------

The accompanying notes are an integral part of the financial statements.

MERRITT AREA FIRE DEPARTMENT
MERRITT, MICHIGAN

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

YEAR ENDED MARCH 31, 2006

	GENERAL FUND	EQUIPMENT FUND	TOTAL GOVERNMENTAL FUNDS
<u>REVENUES</u>			
Federal Grants	\$ 2,040	\$ 0	\$ 2,040
Contributions from Local Units	45,048	0	45,048
Charges for Services	31,282	0	31,282
Interest and Rents	1,196	612	1,808
Other	162	0	162
	<hr/>		
Total Revenues	79,728	612	80,340
<u>EXPENDITURES</u>			
Public Safety	52,716	226,808	279,524
	<hr/>		
Excess of Revenues Over (Under) Expenditures	27,012	(226,196)	(199,184)
<u>OTHER FINANCING SOURCES (USES)</u>			
Proceeds from Debt Issuance	0	175,000	175,000
Transfer In	0	20,000	20,000
Transfer Out	(20,000)	0	(20,000)
	<hr/>		
Total Other Financing Sources (Uses)	(20,000)	195,000	175,000
	<hr/>		
Net Change in Fund Balance	7,012	(31,196)	(24,184)
<u>FUND BALANCES</u> - Beginning of Year	67,131	36,825	103,956
	<hr/>		
<u>FUND BALANCES</u> - End of Year	\$ 74,143	\$ 5,629	\$ 79,772
	<hr/> <hr/>		

The accompanying notes are an integral part of the financial statements.

MERRITT AREA FIRE DEPARTMENT
MERRITT, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
MARCH 31, 2006

Net change in Fund Balances Total Governmental Funds	\$	(24,184)
--	----	----------

Amounts reported for governmental activities are different because:

Governmental funds report capital outlay as expenditures; in the statement of activities these costs are allocated over their estimated useful lives as depreciation.

Depreciation Expense		(28,962)
Capital Outlay		226,808

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds.

Loan Proceeds		<u>(175,000)</u>
---------------	--	------------------

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u><u>(1,338)</u></u>
---	----	-----------------------

The accompanying notes are an integral part of the financial statements.

MERRITT AREA FIRE DEPARTMENT
MERRITT, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Merritt Area Fire Department is a joint venture created in 1955 by Butterfield and Enterprise Townships. The Department was organized to better serve the citizens of both townships as authorized by 1951 PA 35 as amended. The Department is under the control of a Board consisting of three members from each township. The board members are appointed by the Township's boards. The boards duties are to oversee operations, maintain assets, develop budgets for participating townships' approval and generally exercise on the Townships' behalf the powers granted by 1951 PA 88 as amended. Funding is provided by a millage levied on the member townships. The Fire Department's boundaries include all of Butterfield and Enterprise Townships. In addition, the Department contracts to provide fire service to surrounding townships.

B. Government-wide and Fund Financial Statements

During fiscal year 2005, the Fire Department adopted GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statements No. 37 and No. 38, and applied those standards on a retroactive basis. GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net asset categories.

Invested in Capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, and contributions, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets which do not meet the definition of the two preceding categories.

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital

MERRITT AREA FIRE DEPARTMENT
MERRITT, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

requirements of a particular function or segment. Contributions from local units and other items not properly included among program revenues are reported instead as general revenues.

The government-wide focus is more on the sustainability of the Fire Department as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The fund financial statements are similar to the financial statements presented in the previous financial reporting model.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, are recorded only when payment is due.

Contributions from local units and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The accounts of the Fire Department are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

Merritt Area Fire Department reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

MERRITT AREA FIRE DEPARTMENT
MERRITT, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

The *Equipment Fund* is used to account for the accumulation of funds for the purchase of equipment.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the functions involved. Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues.

When both restricted and unrestricted resources are available for use, it is the Fire Department's policy to use the restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Equity

1. Deposits and Investments

The Fire Department's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from date of acquisition.

- I. The Fire Department's Board authorizes the Fire Department Treasurer to invest funds as follows:
 - a. In bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
 - b. In certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution.
 - c. In repurchase agreements consisting of instruments listed in subdivision (a).
 - d. In bankers' acceptances of United States banks.
 - e. In obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than 1 standard rating service.
 - f. In mutual funds registered under the investment company act of 1940, title I of chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with department to purchase only investment vehicles that are legal for direct investment by a public corporation. This authorization is limited to securities whose intention is to maintain a net asset value of \$1.00 per share.

MERRITT AREA FIRE DEPARTMENT
MERRITT, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

2. *Receivables and Payables*

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between governmental activities are reported in the government-wide financial statements as "internal balances."

Advances between funds are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

All receivables are shown net of an allowance for uncollectibles. Fire Department revenues are recognized when they become both measurable and available for use to finance Fire Department operations. Amounts which are not expected to be collected within sixty days are treated as deferred revenues.

For the 2005 – 2006 fiscal year, the Merritt Area Fire Department received as aid \$26,058 from Butterfield Township and \$18,990 from Enterprise Township. In addition, the Fire Department received \$2,040 in a capital grant.

3. *Inventories and Prepaid Items*

Inventories are not significant and are expensed as acquired.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

4. *Capital Assets*

Capital assets, which include property, plant and equipment, are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

MERRITT AREA FIRE DEPARTMENT
MERRITT, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

Property, plant and equipment of the government are depreciated using the straight line method over the following estimated useful lives:

<u>ASSETS</u>	<u>YEARS</u>
Buildings	50
Building Improvements	20
Land improvements	20
Vehicles	5-10
Equipment	5-10

5. *Long-term Obligations*

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

6. *Fund Equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

7. *Use of Estimates*

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. *Budgetary Information*

The annual budget is adopted on the modified cash basis based on the requirements of Michigan Public Act 621 of 1978 "The Uniform Budgeting and Accounting Act." A public hearing is held to obtain public comments. Appropriations lapse at year end. Budgeted amounts presented are as originally adopted on March 3, 2005, or as amended by the Fire Department Board from time to time throughout the year.

The appropriated budget is prepared by activity. The Fire Department Board exercises budgetary control over expenditures.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not

MERRITT AREA FIRE DEPARTMENT
MERRITT, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

employed by the Fire Department because it is not, at present, considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

B. Excess of Expenditures Over Appropriations

For the year ended March 31, 2006, expenditures exceeded appropriations in the Equipment Fund by \$174,808. This over expenditure was funded by a transfer from the General Fund and proceeds from debt issuance.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

The Department's deposits are all on deposit with Chemical Bank West in Grayling, Michigan.

Investment rate risk. The Department will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the Department's cash requirement.

Foreign currency risk. The Department is not authorized to invest in investments, which have this type of risk.

Credit risk. The Department will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the Department's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the Department will do business in accordance with the Department's investment policy.

Concentration of credit risk. The Department will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the Department's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of March 31, 2006, none of the government's bank balance of \$55,852 was exposed to custodial credit risk.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Department's investments are categorized to give an indication of the level of risk assumed by the Department at year end. Category 1 includes investments that are insured or registered, or securities held by the Department or the Department's agent in the Department's name. Category 2 includes investments that are uninsured and unregistered

MERRITT AREA FIRE DEPARTMENT
MERRITT, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

with securities held by the counterparty's trust department or its agent in the Department's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the Department's name. At year end, the Department held no investments.

B. Receivables

The allowance for doubtful accounts is not considered to be material for disclosure. As a result, its uncollectible accounts are virtually nil.

At year end, the Fire Department had accounts receivable for fire runs in the amount of \$2,805.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

No deferred revenue was recorded at the end of the current fiscal year.

MERRITT AREA FIRE DEPARTMENT
MERRITT, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

C. Capital Assets

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental activities:</u>				
Capital assets, not being depreciated				
Land	\$ 41,000	\$ 0	\$ 0	\$ 41,000
Capital assets, being depreciated				
Land Improvements	9,700	0	0	9,700
Buildings	82,515	0	0	82,515
Building Improvements	16,587	0	0	16,587
Equipment	306,870	226,808	0	533,678
Total capital assets, being depreciated	415,672	226,808	0	642,480
Less accumulated depreciation for:				
Land Improvements	5,577	486	0	6,063
Buildings	18,979	1,650	0	20,629
Building Improvements	6,195	829	0	7,024
Equipment	187,694	25,997	0	213,691
Total accumulated depreciation	218,445	28,962	0	247,407
Total capital assets being depreciated, net	197,227	197,846	0	395,073
Governmental activities capital assets, net	\$238,227	\$197,846	\$ 0	\$436,073

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

 Public Safety \$ 28,962

Construction Commitments:

The fire department has no outstanding construction commitments as of March 31, 2006.

MERRITT AREA FIRE DEPARTMENT
MERRITT, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

D. Long-Term Debt

During the year, the Fire Department obtained a bank loan for the purchase of a new fire truck. The balance at March 31, 2006 was \$175,000 with an interest rate of 4.39%.

A summary of the Long-Term Debt transactions for the Fire Department for the year ended March 31, 2006 is as follows:

Long-Term Debt at April 1, 2005	\$ 0
Debt Issued	<u>175,000</u>
Long-Term Debt at March 31, 2006	<u><u>\$175,000</u></u>
Due within one year	<u><u>\$ 21,977</u></u>

The annual requirements to amortize all long-term debt outstanding as of March 31, 2005 including interest payments of \$47,656 are as follows:

<u>YEAR ENDING</u> <u>MARCH 31</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2007	\$ 13,160	\$ 8,817	\$ 21,977
2008	14,728	7,249	21,977
2009	15,387	6,590	21,977
2010	16,076	5,901	21,977
2011	16,797	5,180	21,977
2012-2016	<u>98,852</u>	<u>13,919</u>	<u>112,771</u>
	<u><u>\$ 175,000</u></u>	<u><u>\$ 47,656</u></u>	<u><u>\$222,656</u></u>

E. Fund Balance Reserves and Designations

In order to comply with generally accepted accounting principles and meet certain legal requirements, the Department has certain portions of unreserved fund balances/retained earnings designated for intended future uses. These designations are detailed in the following schedule:

FUND BALANCE

Designated

Equipment Fund

Designated for Equipment

\$ 5,629

MERRITT AREA FIRE DEPARTMENT
MERRITT, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

IV. OTHER INFORMATION

A. Property Taxes

Each Governmental Unit which is a member of the Fire Department levies property tax millage to support the Fire Department. The property tax collections and taxes receivable are recognized by the individual units and remitted to the Fire Department periodically. The Fire Department recognizes the funds received from the units as aid from other governmental units.

B. Risk Management

The Fire Department is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Fire Department participates in a pool of municipalities within the State of Michigan for self-insuring property and casualty, crime, general liability, errors and omissions, and worker's compensation insurance. The Fire Department pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessments to make up the deficiency. The Fire Department has not been informed of any special assessments being required for the current year or the three prior years.

The Fire Department continues to carry insurance for other risks of loss, including fidelity bonds.

MERRITT AREA FIRE DEPARTMENT
MERRITT, MICHIGAN
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
MAJOR GOVERNMENTAL FUNDS

YEAR ENDED MARCH 31, 2006

	GENERAL FUND			EQUIPMENT FUND		
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
<u>REVENUES</u>						
Federal Grants	\$ 0	\$ 0	\$ 2,040	\$ 0	\$ 0	\$ 0
Contributions from Local Units	42,277	42,277	45,048	0	0	0
Charges for Services	25,047	25,047	31,282	0	0	0
Interest and Rents	600	600	1,196	0	1,000	612
Other	0	0	162	0	0	0
Total Revenues	67,924	67,924	79,728	0	1,000	612
<u>EXPENDITURES</u>						
Public Safety	64,200	117,800	52,716	0	52,000	226,808
Excess (Deficiency) of Revenues Over Expenditures	3,724	(49,876)	27,012	0	(51,000)	(226,196)
<u>OTHER FINANCING SOURCES (USES)</u>						
Proceeds from Debt Issuance	0	0	0	0	0	175,000
Transfer In	0	0	0	20,000	20,000	20,000
Transfer Out	(20,000)	(20,000)	(20,000)	0	0	0
Total Other Financing Sources (Uses)	(20,000)	(20,000)	(20,000)	20,000	20,000	195,000
Net Change in Fund Balance	(16,276)	(69,876)	7,012	20,000	(31,000)	(31,196)
<u>FUND BALANCE</u> - Beginning of Year	40,000	40,000	67,131	36,464	36,464	36,825
<u>FUND BALANCE</u> - End of Year	\$ 23,724	\$ (29,876)	\$ 74,143	\$ 56,464	\$ 5,464	\$ 5,629

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

July 6, 2006

LETTER OF COMMENTS AND RECOMMENDATIONS

To the Fire Board
Merritt Area Fire Department
Missaukee County
Merritt, Michigan

As a result of our audit of the basic financial statements of Merritt Area Fire Department for the year ended March 31, 2006, we would like to take this opportunity to comment on the following items relative to the management and accounting records and procedures of the Department:

GASB 34

These financial statements are reported under the new GASB 34 accounting standard and are much different than in the past.

Some of the more significant changes required by GASB 34 are as follows:

1. Management's discussion and analysis is a new section in the financial report. This includes the administration's narrative overview of the information contained in the financial statements.
2. Several new types of financial statements are now included that reports financial information on a Fire District-wide basis and incorporates capital assets, a provision for depreciation on those assets as well as long-term liabilities of the Fire District.

Internal Control

While we observed that bills are approved for payment by the fire board, we did not observe evidence of approval for payment on the bills themselves. We suggest that as a method of strengthening internal control the Fire Department consider having a board member sign the bills approved for payment.

Credit Card Policy

The Fire Department has obtained a credit card. The State of Michigan requires the entity to adopt a credit card policy per P.A. 266 of 1995. We recommend a fire board member review each charge.

We recommend the Fire Department carefully review these statements under the new accounting standard. We are available to explain the various changes in detail if so desired.

We would like to thank the board for its continued confidence in our firm and to thank the Fire Department officers for their cooperation.

If you have any questions relative to the above comments and recommendations or other areas of your annual accounting, please feel free to call on us.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

134 WEST HARRIS STREET
CADILLAC, MICHIGAN 49601
231-775-9789
FAX: 231-775-9749

M. WAYNE BEATTIE, C.P.A.
1902 - 1990
JACK H. BAIRD, C.P.A.
JERRY L. COTTER, C.P.A.
DALE D. COTTER, C.P.A.

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

JOHN H. BISHOP, C.P.A.
ROBERT V. BEATTIE, C.P.A.
DOUGLAS P. McMULLEN, C.P.A.
JOHN F. TAYLOR, C.P.A.
STEVEN C. ARENDS, C.P.A.
SCOTT A. HUNTER, C.P.A.
JONATHAN E. DAMHOF, C.P.A.
MICHAEL D. COOL, C.P.A.

July 6, 2006

LETTER OF REPORTABLE CONDITIONS

To the Fire Board
Merritt Area Fire Department
Missaukee County
Merritt, Michigan

In planning and performing our audit of the basic financial statements of Merritt Area Fire Department, Missaukee County, Merritt, Michigan for the year ended March 31, 2006, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

The relatively small number of people involved in the accounting functions of the Fire Department make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe that the condition described above is a material weakness.

This report is intended solely for the information and use of the Board and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P. C.

Baird, Cotter & Bishop, P.C.